

## Message Text

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ACTION NODS-00

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC IMMEDIATE 9857

S E C R E T SECTION 1 OF 2 KINGSTON 0146

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FOR THE SECRETARY FROM ENDERS

E.O. 11652: GDS

TAGS: IMF, EFIN, JM

SUBJECT: IMF ACCEPT THREE OF YOUR NORTH/SOUTH INITIATIVES

1. FINANCE MINISTERS OF THE IMF INTERIM COMMITTEE COMPLETED ACTION LAST NIGHT ON THREE OF YOUR KEY NORTH/SOUTH INITIATIVES, THUS PROVIDING OVER \$5 BILLION ANNUALLY IN ADDITIONAL IMF FINANCING FOR LDCS THIS YEAR AND NEXT. VIRTUALLY EVERYONE AGREES THESE ACTIONS ASSURE THAT THE LDCS CAN FINANCE THEIR MASSIVE DEFICITS IN '76 AND '77. THUS, THE MAJOR AND MOST URGENT PROBLEM WHICH IMPERILED LDC GROWTH PROSPECTS HAS BEEN RESOLVED--A SUBSTANTIAL ACHIEVEMENT.

2. THIS SUCCESS WILL GIVE US CREDIBILITY AND SUPPORT AMONG MODERATE LDCS AS WE MOVE TO IMPLEMENT THE REST OF YOUR NORTH/SOUTH PROGRAM. IT WILL BROADEN AND PROLONG THE RELATIVE DETENTE IN NORTH/SOUTH RELATIONS BEGUN AT THE SEVENTH SPECIAL SESSION AND CONFIRMED AT CIEC.

3. BUT WE MUST ALSO RECKON THAT THESE NEW FINANCING FACILITIES CHANGE THE UNDERLYING BALANCE OF BARGAINING POWER--IN FAVOR OF THE LDCS. PERHAPS THE SINGLE MOST IMPORTANT REASON WHY THE LDCS SWITCHED FROM CONFRONTATION TO COOPERATION LAST SUMMER WAS THEIR NEED FOR OUR  
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IMMEDIATE ASSISTANCE IN PROTECTING GROWTH PROGRAMS

AGAINST WORLD-WIDE RECESSION AND THE CONSEQUENT ENORMOUS DEFICITS IN THEIR BALANCE OF PAYMENTS. NOW THEY HAVEJ THAT ASSISTANCE, THEY ARE BETTER PLACED STRATEGICALLY TO PURSUE WEALTH-REDISTRIBUTION SCHEMES. ON OUR SIDE, WE HAVE ALL BUT EXHAUSTED THE OPTIONS FOR PROVIDING QUICKLY SUBSTANTIAL FUNDS FOR LDCS OUTSIDE THE APPROPRIATION PROCESS AND WITHOUT STRUGGLE WITH DOMESTIC POLITICAL INTERESTS. IN THE NEXT ROUNDS--SDR/AID LINK, MASSIVE DEBT RELIEF, COMMODITY AGREEMENTS FOR A KEY MINERAL (AS OPPOSED TO TROPICAL AGRICULTURAL PRODUCTS)-- WE ARE LIKELY TO BE ON THE DEFENSIVE, RATHER THAN ON THE INITIATIVE AS WE HAVE BEEN. RECOVERING WORLD DEMAND FOR COMMODITIES WILL ALSO INCREASE LDC BARGAINING POWER. THER IS THUS A NEW OBJECTIVE SITUATION FOR THE RADICAL LDCS TO EXPLOIT AS THE RELATIVE GOOD FEELING OF THE SEVENTH SPECIAL SESSION, CIEC AND THIS MEETING WEARS OFF. WHETHER THE RADICALS DO SO DEPENDS ON THE QUALITY OF THEIR LEADERSHIP--PARTICULARLY OPEC LEADERSHIP-- AND RECENTLY AND AGAIN HERE IN KINGSTON IT HASN'T BEEN ALL THAT IMPRESSIVE.

4. AGREED YESTERDAY WERE THE FOLLOWING ACTIONS:

(A) FOLLOWING UP YOUR CIEC STATEMENT ON ADDITIONAL FINANCING FOR THE LDCS EXTRAORDINARY DEFICITS, SIMON JOINED THE MINISTERS IN AGREEING TO INCREASE TEMPORARILY ALL COUNTRIES IMF DRAWING RIGHTS ("CREDIT TRANCHES") BY A FULL 45 PERCENT. (THIS WAS CLEARLY DONE TO HELP LDCS, BUT THE BRITISH AND ITALIANS MAY DIP IN AS WELL.) THIS ALONE IS WORTH \$3.4 BILLION TO LDCS, THE FIRST QUARTER OF IT DRAWABLE WITH MINIMAL POLICY CONDITIONS AND ASCENDING CONDITIONS THEREAFTER.

(B) MINISTERS ALSO RATIFIED THE DIRECTORS DECISION TO GREATLY LIBERALIZE IMF FINANCING FOR EXPORT EARNINGS STABLIZATION PURSUANT TO YOUR PROPOSAL AT THE SEVENTH SPECIAL SESSION. THIS IS WORTH AT LEAST \$1 BILLION TO LDCS THIS YEAR. THE LESS SIGNIFICANT GRANT COMPENEMT OF OUR EARNINGS STABLIZATION SCHEME REMAINS OPEN, MAINLY BECAUSE THE LDCS HAVE LOST INTEREST IN THIS  
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ASPECT NOW THAT THE BIG MONEY FROM IMF EXPANDED REGULAR RESOURCES AND EARNINGS STABLIZATION IS ASSURED.

(C) FINALLY, THE MINISTERS AGREED ON A SCHEDULE FOR IMF GOLD SALES TO ENABLE PROMPT START UP OF THE TRUST FUND FOR POORER LDCS YOU INITIALLY PROPOSED IN CHICAGO IN NOVEMBER 1974. DEPENDING ON THE PACE OF GOLD SALES AND OPEC CONTRIBUTIONS, IF ANY,

THE TRUST FUND COULD LEND \$500 MILLION TO \$1 BILLION  
IN '76.

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC IMMEDIATE 9858

S E C R E T SECTION 2 OF 2 KINGSTON 0146

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5. AGREEMENT ON THESE LDC MEASURES PLUS THE RAMBOUILLET PACKAGE ON EXCHANGE RATES AND GOLD WENT SMOOTHLY AMONG THE INDUSTRIAL COUNTRIES AND NON-OIL LDCS, BUT THE END OF THE CONFERENCE WAS DOMINATED BY CLUMSY OPEC EFFORTS TO DEAL THEMSELVES OUT OF ANY PART OF THE COST OF THE MEASURES FOR LDCS. THE G-10 LAID THE BAIT FOR THIS BY MAKING THEIR MOST GENEROUS OFFER ON INCREASED DRAWING RIGHTS CONDITIONAL ON OPEC COUNTRIES SUPPORTING THE IMF'S ABILITY TO FINANCE THIS THROUGH MAKING OPEC CURRENCIES HELD BY THE IMF CONVERTIBLE AS WE AND THE IMF HAVE LONG URGED. FOR 24 HOURS THE OPEC REPRESENTATIVE REJECTED ANY SUCH BUDEN-SHARING, THUS IMPERILING IMPLEMENTATION OF \$5 BILLION IN ADDITIONAL FINANCING FOR LDCS AS WELL AS THE RAMBOUILLET PACKAGE. IN THE END THE OPECS HAD TO YIELD AND WERE UNABLE TO TRADE THEIR CONCESSION FOR ANY FURTHER LIBERALIZATION OF THE G-10'S GENEROUS OFFER. THE NON-OIL LDCS, WHILE OVERTLY CONDONING THE OPEC EFFORT TO IMPERIL ALL UNLESS RELIEVED OF ALL COST, WERE CLEARLY SHOCKED. WHILE THE OPEC-LDC ALLIANCE SURVIVES ITS LIFE SPAN MAY HAVE BEEN SHORTENED BY THIS CLUMSY OPEC PLOY, COMING ONE MONTH AFTER ITS HEAVY-HANDED POWER PLAY ON THE LDCS AT THE CIEC MINISTERIAL.

6. SIMON, BURNS AND YEO, WHILE TOUGH WHEN THEY FELT THE TACTICAL SITUATION CALLED FOR IT, WORKED SUCCESS-

FULLY TO PUT THIS ALL TOGETHER. SIMON WAS A KEY FIGURE  
IN GETTING THE G-10 MINISTERS TO DRIVE THEIR ADVANTAGE  
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AGAINST OPEC GREED AS HARD AS THEY DID.

7. WITH THE MINISTERS CONSIDERABLE ACCOMPLISHMENTS  
FROM RAMBOUILLET TO JAMAICA, BOTH MONETARY REFORM  
AND LDC BALANCE OF PAYMENTS ISSUES HAVE NOW ENTERED  
A PERIOD OF REDUCED ACTIVITY WHICH MAY LAST FOR YEARS.  
THE ACTION AMONG INDUSTRIAL COUNTRIES AND BETWEEN  
THEM AND LDCS SHOULD NOW SHIFT TO OTHER AREAS. BUT WE  
HAVE ONE MAJOR LOOSE END: RATIFICATION OF THE \$25  
BILLION OECD SOLIDARITY FUND. WE NEED THIS SHOULD WE  
EVER HAVE TO UNDERTAKE A MAJOR POLITICAL BAILOUT (ITALY?)  
OR SHOULD SAUDI ARABIA OR OTHER GULF STATES START  
USING THEIR MONEY IN A PREDATORY MANNER. WITH NEW  
YORK NOW AT LEAST TEMPORARILY BEHIND US, WE MUST  
PUSH THIS THROUGH.  
GERARD

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